HOUSING MARKET OUTLOOK
Charlottetown CA

CANADA MORTGAGE AND HOUSING CORPORATION

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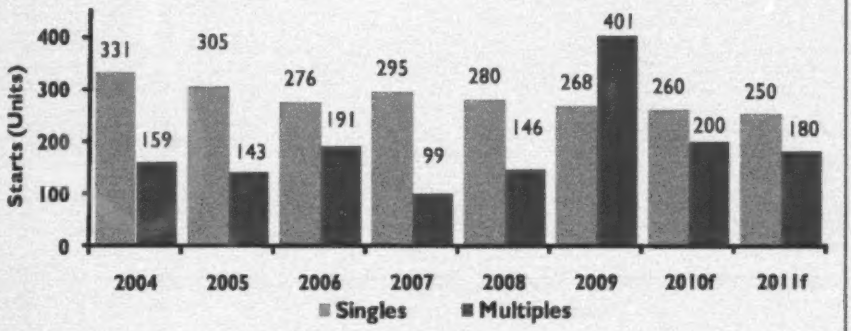
Most Housing Indicators to Decline Slightly

Charlottetown's housing market has experienced significant growth over the past decade. The forecast for 2010 indicates a year of stability, and some declines, rather than continued growth. The outlook for 2011 is for slight declines in most aspects of the housing sector. Although PEI experienced the smallest decline in economic growth of all the provinces during the downturn, as predicted, the rebound will also be very modest for 2010 and 2011.

Interest rates are expected to remain near historic lows and will continue to benefit the housing market. The anticipation of rate increases resulted in some demand for housing being

Figure 1

Housing Starts to Slow Over the Forecast Period



Source: CMHC

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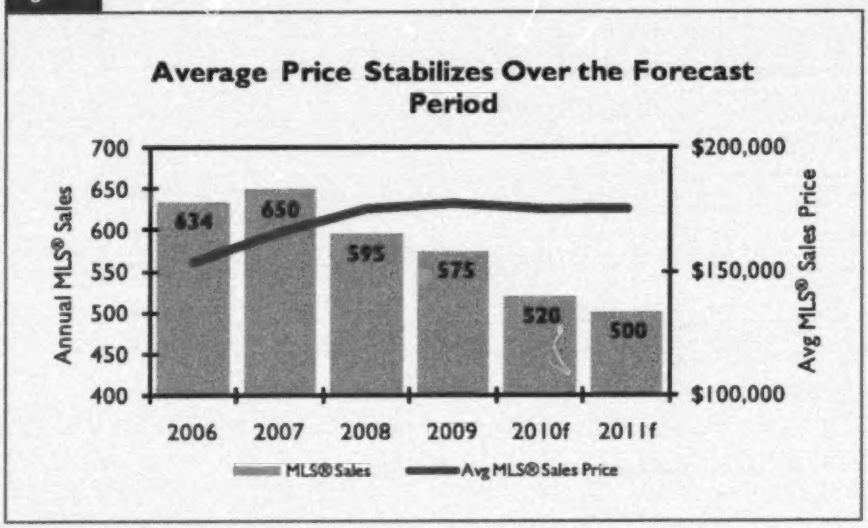
brought forward into the first part of the year. The second half of 2010 has seen a slowing down in both economic and housing activity, bringing levels back in line with 2009.

Although nearly a quarter of employment in the province is found in retail trade and public administration, (significantly higher in the capital region), growth has been primarily focused in the construction industry. Residential, commercial, and infrastructure construction has boosted employment in the capital region to new highs. Employment in the capital region started the year with significant increases rising almost nine per cent after the first quarter. By the end of the third quarter, the increase had dropped to under six per cent. Approximately half of the employment growth has been generated from part-time work, which has less of an impact on demand for housing. On a provincial level, the majority of employment growth continues to be in part-time employment. The forecast for employment in Charlottetown for 2010 is 33,250, a new record high, followed by a slight decrease next year.

The unemployment rate grew to approximately nine per cent in 2009 after rising in the previous two years as well. Growth in employment during 2010 in the Charlottetown area outpaced labour force growth, leading to a lower unemployment rate. It is expected that the 2010 full year unemployment rate will decline to a level similar to 2008. As construction activity begins to subside during the last quarter of 2010, the trend of a declining unemployment rate will begin to reverse.

Migration to the capital region continues to be a positive factor for

Figure 2



Source: PEI Real Estate Board, CMHC Forecast
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housing and expectations point to another year of positive net-migration in 2010. International migration to the province, and particularly to the Charlottetown area, has been relatively strong over the past two years and although this trend is forecast to continue, the numbers will be lower than experienced in 2009.

The expected slowdown in construction work, as 2011 progresses, could be a catalyst for some inter-provincial outmigration. Opportunities in other parts of the country will determine the extent of potential movement, which would act as a counterbalance against increased housing demand created from international migration.

Mortgage Rates

On September 8, the Bank of Canada increased the Target for the Overnight Rate from 0.75 per cent to 1.00 per cent. This is the third 25 basis point increase since April 2010, when the rate was at a historical low of 0.25 per cent. With the overnight rate expected to remain flat, mortgage rates, particularly short term mortgage rates and variable mortgage rates, are also expected to remain steady at current levels.

According to CMHC's base case scenario, posted mortgage rates will remain flat in the second half of 2010 and in 2011. For 2010, the one-year posted mortgage rate is assumed to be in the 3.0 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.2 to 6.1 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 2.7 to 3.7 per cent range, while three and five-year posted mortgage rates are forecast to be in the 3.5 to 6.0 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Lower MLS® Sales

Nationally, MLS® sales peaked in 2007. The PEI and Charlottetown markets experienced the same trend, but were followed by a significant drop provincially (-20 per cent) and a gradual decline in the capital region in 2008. The ten year average of residential MLS® sales in the Charlottetown area is 570 units and over the past eight years the annual tally has been remarkably close to that figure. The Charlottetown region has proven to be an extremely stable market. However, it is not immune to the economic and demographic shifts which are occurring and this will impact the resale market.

Demand for resale homes is expected to decline over the forecast period. Employment growth will be mostly flat during this period. As mentioned above, work in the construction industry, which has been significant in 2010, is likely to subside next year. MLS® sales are forecast to drop in 2010 to 520 units and then experience another decline in 2011 to 500 units.

The pace of household growth will decline as positive international migration is somewhat offset by an outflow of people through inter-provincial movement. The overall impact will be a reduction in demand for resale homes compared to the previous two years.

The average sale price is on track to experience the first decline in over 12 years. Slightly reduced demand along with fewer new homes on the market will be the catalyst for a decrease. Unlike recent history, the past few years have seen an increase in new homes placed on the market for sale. Builders have had the confidence to put homes on the market rather than just serve the pre-sold segment.

A decline in construction of houses which are not pre-sold will reduce the impact these higher priced homes have on the average sale price. Average sale prices are expected to decline by approximately $2,000 and end 2010 at $175,000 and remain at that level in 2011.

Apartment Construction Declines From Unusually High Levels

Total new home construction in the Charlottetown CA will decline by 31 per cent this year as rental unit starts come down from unusually high levels in 2009. The forecast for this year will see multiple unit starts drop in half to a more typical level of 200 units compared to 401 units started last year. The level of multiple unit construction in 2009 was more than double the ten year average (170 units) and was not sustainable. Despite representing a substantial decline compared to 2009, the level of construction in 2010 will be recorded as one of the highest in recent history. The expectation for 2011 is a further decline to 180 units, which again, remains above the average level experienced over the past decade.

Single-detached home construction will remain very close to levels seen in 2009. Although the year began with significant increases over 2009, as the year has progressed, this gap has been shrinking. Since July, monthly single starts have recorded declines compared to the same month last year. This is expected to continue so that by year end there will be fewer single starts than in 2009, with a forecast of 260 houses compared to 268 last year. This trend toward small declines will carry forward to 2011 with 250 new single-detached homes being built.

Although the transition to larger, more elaborate homes will continue, average new home prices will not advance as much as in recent years. As mentioned above, until the supply of new homes on the market is sold, the practice of building expensive, unsold houses will decline. Also, stable demand will keep average prices rising more incrementally than in the past.

Vacancy Rates on the Rise

Vacancy rates started to rise last year as an increase in new units began to impact the market. The rate advanced from 2.3 per cent in October of 2008 to 3.4 per cent last October. This trend will continue as the vast majority of new rental units built last year begin to impact the vacancy rate this year. The increased level of construction and new supply will lead to vacancy rates increasing to an expected 4.5 per cent this year and 5.0 per cent in 2011.

Average rents will increase as a result of the 2.0 per cent allowable rent increase approved by the Island Regulatory and Appeals Commission for 2010, but more significantly due to the large number of new units entering the market at higher prices. Two bedroom average rents are expected to be $725 this year and $735 in 2011.

Forecast Summary Charlottetown CA Fall 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	650	595	575	520	-9.6	500	-3.8
MLS® New Listings	817	975	786	875	11.3	900	2.9
MLS® Average Price ($)	166,244	175,231	177,237	175,000	-1.3	175,000	0.0
New Home Market							
Starts:							
Single-Detached	295	280	268	260	-3.0	250	-3.8
Multiples	99	146	401	200	-50.1	180	-10.0
Starts - Total	394	426	669	460	-31.2	430	-6.5
Average Price ($):							
Single-Detached	192,477	207,361	242,674	250,000	3.0	255,000	2.0
Median Price ($):							
Single-Detached	192,477	207,361	242,674	249,954	3.0	257,465	3.0
New Housing Price Index (% chg.)	1.3	1.4	0.9	3.0	-	3.0	-
Rental Market							
October Vacancy Rate (%)	4.3	2.3	3.4	4.5	1.1	5.0	0.5
Two-bedroom Average Rent (October) ($)	659	672	701	725	-	735	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	3.47	-	3.20	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	5.59	-	5.20	-
Annual Employment Level (,000)	32,450	32,925	32,525	33,250	2.2	33,583	1.0
Employment Growth (%)	0.9	1.5	-1.2	2.2	-	1.0	-
Unemployment Rate (%)	6.6	7.6	8.6	7.4	-	7.6	-
Net Migration (P.E.I.)	-113	375	1,248	1,525	22.2	825	-45.9

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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